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Chief, Audit Staff

8 AUG 1960

Director of Logistics

Development of An Adequate and Uniform Pricing Policy and Procedures

REF : Report of Audit of Property Inventory Adjustments and Property Written Off for the Period Ending 30 September 1958

1. This Office in coordination with the Comptroller has devised a uniform pricing policy in accordance with your recommendation contained in paragraph 12 of the referenced report. The policy and appropriate procedures are described in detail on attachment.

2. In brief, the policy is based on replacement costs rather than the weighted average method used in previous years. Exceptions to this principle are strategic reserve stocks and other non-moving items which are priced at their acquisition figure, and donated stocks which are priced at or near intrinsic value. An average price is applied only in the absence of better criteria.

3. The new policy is the product of an intensive study that was made to develop a system capable of furnishing realistic prices thereby insuring better funding and budgeting practices. The policy was operationally tested for the past year. It was used in computing the prices that appear in the current Price Supplement to the Supply Catalog, and in making necessary adjustments during the year. We applied the same principles in our review of prices preparatory to publishing the Fiscal Year 1961 Price Supplement. The review was made with relative ease and a minimum of manpower. From our experience to date, we are convinced that the new system is vastly superior to the old and that it will enable us to accomplish our stated objectives.

4. Both the policy and applicable procedures will be presented in the soon-to-be-published Supply Division Headquarters Operating Procedures Manual.

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